

# California Use Tax Basics

Most retailers and their customers understand the basics of California's sales tax, which applies to the *sale* of physical merchandise, including vehicles, in the state. However they are often less clear about the state's *use tax*, which applies to the *use, storage, or other consumption* of those same kinds of items in California. While the use tax was originally put in place to protect California merchants from unfair out-of-state competition, it also applies to certain purchases made within the state.

## When does use tax apply?

Use tax applies when you buy a physical product that will be *used, consumed, given away, or stored* in this state, under certain circumstances.

Use tax generally applies to

- California consumer or retailer purchases from out-of-state vendors who do not collect California tax on their sales (see *Notes*, below).
- Retailer use of items purchased using a resale certificate, including: withdrawing items from inventory for personal or business use, using an item before sale, or using an item in manufacturing unless it becomes a physical part of the final product sold. Demonstrating or displaying an item is generally not a taxable use provided the item remains for sale.
- Purchases of vehicles, vessels, mobile homes, and aircraft from sellers who do not hold seller's permits. For more information, please order one of our related publications (see reverse) or call our Consumer Use Tax Section at 916-445-9524.

The use tax is based on the item's purchase price.

*Notes:* While many purchases from out-of-state vendors are subject to use tax, special rules may apply (see publication 112, *Purchases from Out-of-State Vendors*). Special use tax rules also apply to purchases by insurance companies and to the use of heavy trucks and trailers. In some cases, sellers must collect the use tax from their customers and pay it to us. For more information, contact our Information Center (see numbers at left).

## Who is responsible for paying the use tax, and when is it due?

The buyer of the item that will be used, consumed, or stored in California owes the use tax. In some cases, sellers must collect the use tax from their customers and pay it to us (see reverse). If you are not required to hold a seller's permit, your payment is generally due on or before the date your personal income tax return is due to the Franchise Tax Board. If you hold a seller's permit or consumer use tax account, your due date is indicated on the return sent by the Board of Equalization to your mailing address.

## Are the sales tax and use tax rates the same?

Yes. However, when use tax is due, the full tax rate for the location where the property will be *used, stored, or consumed* generally applies, regardless

### Sales and Use TAX FACTS

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For additional information you may order or download forms and publications from our website, [www.boe.ca.gov](http://www.boe.ca.gov).

You may also call our Information Center for assistance:

800-400-7115

TDD/TTY 800-735-2929.



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of where the sale takes place. Please see publication 71, *California City and County Sales and Use Tax Rates*. Special use tax rules for railcars, heavy trucks, and similar equipment are found in publication 44, *Tax Tips for District Taxes*.

## Guidelines

These general guidelines do not address exemptions or exclusions that may apply in specific situations.

| <b>Use Tax — When does it apply? How do you pay it?</b>   |  |
|---|--|
| <i>Type of Taxable Transaction or Circumstance of Use, Storage, or Consumption</i>  | <i>Reporting the Sale or Purchase and Paying the Use Tax Due</i>   |
| <i>If you are a California business with a seller's permit</i>  |  |
| Taxable lease   | <i>If you are the lessor:</i> Collect use tax from purchaser; report lease payments in "total sales" on sales and use tax return; pay tax with return. <i>If you are the lessee:</i> pay tax to the lessor. <i>Note:</i> you may owe the tax if the lessor doesn't collect it. |
| <i>If you are a seller located in another state</i>   |  |
| Taxable use, storage, or consumption of item purchased without payment of California tax (see reverse)  | Report purchase on return as "purchase subject to use tax" and pay tax. You may be able to take a credit if you paid another state's sales or use tax (see return instructions).   |
| Taxable sale to California customer, if you are engaged in business in California (have CA location, representative, or other nexus)                            | You <i>must</i> register, collect use tax from customers, and forward the tax to the Board with your tax return (see Regulation 1684)  |
| Taxable sale to California customer if you are <i>not</i> engaged in business in California   | You <i>may</i> voluntarily register to collect and pay use tax. If you do not, your customer must pay it to us.  |
| <i>If you are a California resident who is not required to hold a seller's permit</i>   |  |
| Purchase of merchandise from out-of-state retailer who does not collect California sales or use tax   | Report the purchase on your California income tax return or on the form in publication 79-B. You may be able to take a credit if you paid another state's sales or use tax. If you make recurring taxable purchases, you may wish to obtain a Consumer Use Tax Permit.         |
| Purchase from private party of vehicle, undocumented vessel (registered with DMV), documented vessel (registered with US Coast Guard), aircraft, or mobile home | Pay tax to DMV (vehicles, undocumented vessels); to us (documented vessels, aircraft); to a registered broker (documented vessels, aircraft); or to state Department of Housing and Community Development (mobile homes).  |

## Related resources

### Publications

- 44 Tax Tips for District Taxes
- 46 Tax Tips for Leasing of Tangible Personal Property in California
- 52 Vehicles and Vessels: How to Request a Use Tax Clearance for DMV Registration
- 61 Sales and Use Taxes: Exemptions and Exclusions
- 79 Documented Vessels and California Tax
- 79A Aircraft and California Tax

- 79B California Use Tax
- 105 District Taxes and Delivered Sales
- 112 Purchases from Out-of-State Vendors

### Regulations

- 1684 Collection of Use Tax by Retailers
- 1685 Payment of Tax by Purchasers
- 1686 Receipts for Tax Paid to Retailers
- 1823 Application of Transactions (Sales) Tax and Use Tax
- 1827 Collection of Use Tax by Retailers (*district taxes*)

Note: The statements in this fact sheet are general and are current as of August 2005. The sales and use tax law and regulations are complex and subject to change. If there is a conflict between this publication and the law or regulations, decisions will be based on the law and regulations.

